ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACTORS AFFECTING CUSTOMER RETENTION IN LIFE INSURANCE SECTOR: THE CASE OF ETHIO LIFE AND GENERAL INSURANCE COMPANY (ELiG)

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A Thesis Submitted to St. Mary's University, School of Graduate Studies, In Partial Fulfilment of the Requirements for the Award of The Degree of Master of Arts in Marketing Management

JUNE 2022

ADDIS ABABA, ETHIOPIA

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
SCHOOL OF BUSINESS

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DECLARATION

I hereby declare that this research project entitled "Factors Affecting Customer Retention in Life Insurance Sector" is my original work and to the best of my knowledge has not been presented for an award of degree at this or any other University, and that all references materials contained therein have been duly acknowledged.

Behailu Kacha, Signature ___________ Date__________________

I. TABLE OF CONTENTS

CHAPTER FIVE: DISCUSSION, SUMMARY, CONCLUSION & RECOMMENDATION

II. ACKNOWLEDGEMENT

First of all, I would like to thank the Almighty God for his help and provision towards successful completion of my study. I would like to forward special gratitude and appreciation to my advisor Ass. Prof. Mohammed M. for his precious comments and suggestions during the progress of this study. My sincere regards also goes to my colleagues for their constructive comments and suggestions.

Great appreciation is also extended to my family and friends who always gave me a courage during the study. I would like to thank the staff of Ethio Life & General insurance company for assisting and cooperation in contacting their customer and collecting the data.

The last but not the least, I would like to dedicate this paper to my lovely wife, Tigist Teklu for her relentless encouragement and support which gives me strength to complete this paper.

III. LIST OF ACRONYMS

ELiG	**ETHIO LIFE AND GENERAL INSURANCE COMPANY**
SPPSS	**STATISTICAL PACKAGE FOR SOCIAL SCIENCE**
SGS	**SCHOOL OF GRADUATE STUDIES**
CS	**CUSTOMER SERVICE**
PR	**PREMIUM**
RP	**CUSTOMER RELATIONSHIP**
CO	**COMPETITION**
SB	**SWITCHING BARRIERS**

IV. LIST OF TABLES

V. LIST OF FIGURES

VI. *Abstract*

Customer retention is more profitable strategy because keeping the existing customer is cheaper than searching for new customer. Customer retention is a very important issue for the insurance industry. It is the concern of every insurance companies as each company's profitability and growth depends on the capacity of retaining their existing customers. In most cases, it is the core focus area of activity in insurance business.

The main objective of this study is to identify factors that influence customer retention in the life insurance sector in the case of Ethio Life & General Insurance Company, Addis Ababa, Ethiopia. In this research, customers of life insurance sector were targeted as the population while customer service, premium, switching barriers, customer loyalty, competition, and claim trend were taken as predicting variables towards customer retention as criterion variable. The design of the study is explanatory research design as the study tries to examining the explanatory factors affecting customer retention in life insurance sector. The study used questionnaire to collect relevant data for the research questions from census respondents of 158 customers of Ethio Life and General Insurance Company. Pearson correlation and multiple regression analysis were used to examine the relationship between the independent variables and customer retention using SPSS 20.0 and the results showed that all factors contributed to explain customer retention but comparatively premium had the largest impact on customer retention than customer service, switching barrier, customer loyalty, competition, and claim trend. Thus insurance companies should design a strategy *to address these factors for increment of their existing customers' retention.*

Keywords: *Customer retention, customer service, Premium, Loyalty, Competition, switching barriers.*

CHAPTER ONE

INTRODUCTION

This chapter presents background of the study, statement of the problem, research questions, research objectives, and operational definitions, scope of the study, limitation of the study and significance of the study.

1.1 Background of the Study

Insurance companies are one of the major financial institutions established to bear the unforeseen and measurable risks involved in the economic and social activities of the given community. Insurance companies provide a protection against possible economic losses and indemnify the insured person or property to the original economic condition of the insured. Insurance companies usually collects a fair and commensurate premium from the insurance policyholder for the risk they covered. In principle insurance companies administer the risk of a homogeneous pool, which is law of large number and pay the claims to the eligible claimant of the member of the pool, called the beneficiary.

A business can pursue several other objectives, but the very survival of any business depends on how best it can capture and retain its market in order to improve its revenues. Customers are the driving force behind the success of any company and their management will ensure the company to succeed in its objective of making profits. Customer retention is therefore a major concern for any business in the competitive environment of today.

In the past, many companies took their customers for granted. Customers often did not have many alternative suppliers, or the other suppliers were just as poor in quality and service, or the market was growing so fast that the company did not worry about fully satisfying its customers. A company could lose 100 customers a week, but gain another 100 customers and consider its sales to be satisfactory. Such a company, operating on a „leaky bucket" theory of business, believes that there will always be enough customers to replace the defecting ones. However, this high customer churn involves higher costs than if a company retained all 100 customers and acquired no new ones. Companies must pay close attention to their customer defection rate and undertake steps to reduce it. First, the company must define and measure its retention rate. Next, the company must identify the causes of customer defection and determine which of these can be reduced or eliminated (Kotler, Wong, Saunders, and Armstrong, 2005).

According to Sajeev (2007), customer retention refers to the activities and actions companies and organizations take to reduce the number of customer defections. High customer retention can thus be described as having clients of a particular product or business constantly return to and use the business product or service, and not leave to go to another enterprise or desert the current one entirely. On the agenda of many organizations, therefore, is to find a way to reduce customer defections. A key way to achieve this is to pay large attention to the first contact that a company has with a client and to ensure that a good rapport is maintained throughout the business and customer relationship. For customer retention to occur, therefore, it is necessary that these positive efforts are maintained throughout their lifecycle. To retain customers, a company has to ensure that it meets the clients' needs by providing suitable and quality products and services. This is not the only way, though, since in addition to this the company has to identify exactly how the services are provided to the consumers, what benefits a customer obtain from investing in a company's solutions and what kind of a reputation the organization or already has in the marketplace.

According to Getnet A (2016) A business can pursue several other objectives, but the very survival of any business depends on how best it can capture and retain its market in order to improve its revenues. Customers are the driving force behind the success of any company and their management to ensure the company to succeed in its objective of making profits. Customer retention is therefore a major concern for any business in the competitive environment of today.

According to Hanna D (2014) stated Insurance companies in Ethiopia are in expansion, targeting lucrative businesses favored by construction development, growth of foreign direct investment and the overall economic growth. Thus, competition tends to be high among existing and the incoming insurance companies. The nature of service given by all insurance companies is subject to renewal of policy period which require the customer's willingness to stay longer with its insurers.

According to Sarah W (2019) finding, customer service directly affects customer retention of the insurance companies. She further describe the situation that the ability that a company has to gain and retain new clients does not only rely on the quality of goods and services that they have, but also to the way it treats the existing customers, what value or benefits they obtain from the company's solutions, and the reputation it has across the marketplace. Customer retention not only helps to make the insurance company increase profits, but also helps to reduce new customer recruitment and marketing costs.

Many more research indicate also insurance companies without a personal connection with their customers, mainly due to the fact that their consumers mainly interact with their agents and representatives through means such as telephone or email. This personalized interaction is required for customer retention. Companies can therefore increase retention rates by improving this interaction through, for instance, assigning a single agent to a single customer, which grant the consumer the freedom to talk to them anytime they can and air any concerns and issues concerning their policy and coverage options (Sarah W (2019). From the finding of research, customer service of the insurance company determines that customer retention rate in the company which indicate that too limited factors identified for the study. Moreover, the research paper could not identified whether the findings were life or non-life insurance sector.

On another related study, Hanna D (2014) concluded her findings of the research as it can be concluded that from the four factors, trust is the most determining factor of customer retention. The research proves that customer trust has a direct and strong relation with customer retention. A customer who have trust for the company almost seven times likely to be retained than who have no trust. Customers need to have trust in the company’s brand, reputation, reliability and promises (Hanna D (2014).

Hanna of course comes up with more widened factors (four factors as a determinants variables for customer retention. However, Hanna’s research lacks specialization as the insurance sector broadly categorized into two broad categories, life insurance and non-life insurance sector.

Finally, Getnet A (2016) tried to examine the effects explanatory variables on customer retention in non-life insurance. Getnet summarizes his researches focus areas as the problem of high customer loss rate, intense competition to retain customers and as area being under researched, this study designed to identify factors affecting customer retention in the non-life insurance sector in Addis Ababa Ethiopia. The major finding of Getnet shows that satisfaction, trust, price and switching barriers play a vital role in affecting customer retention. Getnet’s study is of course too specific to the subject matter of the study which is non-life insurance sector in Addis Ababa.

From the above research findings, my research paper by adding more explanatory variables focused on factors affecting customer retention in life insurance sector in case of Ethio Life And General Insurance Company, Addis Ababa, Ethiopia.

1.2 Statement of the problem

Insurance in general and life assurance in particular needs to be correlated with the country's development plan as a corollary to the emerging middle class and educated society. However, the intricacies that make up life insurance market in the country are not very well known to most, including to those engaged in the business. Looking at the track record of insurers in Ethiopia, the life insurance business has been shunned from their business portfolio and weak handily annexed to the general insurance business (Mekonnen G.2015).

According to the observers and professionals of Ethiopian insurance sector, today, insurance business in Ethiopia is not developed business as the sector's potential identified so far. All industry participants agreed that insurance professionalism has been degrading from time to time as the competition becomes intense among industry players. Weak organizational and poor regulatory framework, lack of adequate number of professionals has been challenging the growth of the insurance sector. On the other hand, operational profitability has also been significantly declining as price cutting becomes the prior strategy of the industry players. Only companies with good investment portfolio are maintaining their profitability position whereas, companies with poor investments are struggling to be financially solvent. Majority of the insurance companies were getting a profit from investment such as time deposit at the bank.

One company level data shows that the company performing below its target for the last three consecutive years. The insurance business usually set its target every year based on the performance of the previous year and industry growth. The basic reason for the company unable to attain its target could be the problem associated with the customer retention as it directly affects the performance of the company.

Even if the majority of life insurance contracts are characterized as long-term police's which stays active as long as the insured survives; some of the policies' are still yearly renewable contract that provides a customer greater degree of freedom either to renew the contract with the existing insurer or switch to another insurance company even with a better price. This is the point where the issue of customer retention becomes the primary concern of each insurance companies to deal with. For insurers, the impact of losing of one business might result in shift in market share, profitability, and growth rate of that company in the industry.

As per the ELiG's Strategic Plan Document, the retention rate measures the retained premiums by an insurance premium for its own account during a given period, usually one year and it is computed dividing the Net Premium by Gross Earned Premium (ELiG's Strategic Plan Document of 2021-2025).

According to the plan, the retentions rate of the company is below the industry average which is the industry average is 70% whereas the ELiG's is around 50%. The strategic document planned to increase the company's retention rate to 85% by 2025. On the same Strategic Plan of the organization, SWOT analysis part of the company's strategic plan, low retention rate is presented as the weakness part of the organization (ELiG's Strategic Plan Document of 2021-2025).

Operational excellence in turn engenders excellence in customer service resulting in high customers' retention, building reputable image, and thus attracting more customers. Retaining existing customers and attracting new customers are the real drivers of growth. Growth fuel higher productivity and efficiency and then sustainability. All these added up generate higher shareholder value in terms of improved earnings per share (ELiG's Strategic Plan Document of 2021-2025).

According to the second quarter industry report, the performance of the ELiG showed that in five months of production performance period of 1st July 2021 to 31st December 2021, a gross premium of ETB26.4Million lost due to the loss of 18 existing clients due to gaps in retention. Consequently, the production of the company dropped dramatically during the period. Consequently, the company's growth rate, market share and profitability dramatically dropped. For example, the market share of the company dropped from 9.7% by 2020 to 6.1% by 2021 similar period, the production performance also declined from 35.9 million by 2020 to 27 million by 2021. Even thou, other related factors such war and political instability plays its own role for declining the above key performance indicators, inability to retain the existing customer is the major factor (Second quarter Industry report:2021).

Customer retention is a critical concern for every insurance companies. Insurance customers evaluate the service level of the insurance company against their responsiveness, flexibility, courtesy and dependability throughout the insurer's service contact points. Most of the time, customers evaluate their insurance company at the time of claims, the critical point where the policyholders decides either to stay or leave the current insurance company.

This research paper try to stay focused on assessing factors that affecting life insurance customer retention. Even though, many other factors could be mentioned as a factor for poor customer retention; customer services, renewal premium, relationship, switching barriers, and competition are some of a key variable to be studied under this research paper.

1.3. Research questions

In a wider sense of statement this research paper is all about assessing factors affecting customer retention in life insurance sector. Specifically, the thesis try to address the following question through analyzing the variables or factors that possibly affect customer retention in life insurance business. What factor does the insurance customers really derives them to renew the business with the existing insurance service vender for another service year is the central them of the paper in which the following structured questions properly addressed. These are;

1. What is the effect of customer service on customer retention?
2. What is the effect of renewal premium on customer retention?
3. What is the effect of relationship on customer retention?
4. How often competition affects customer retention?
5. What is the effect of switching barriers on customer retention?

1.4 Research objective

1.4.1 General objective

The general objective of the research is to analyze factors that affects customer retention in life insurance; in the case of Ethio Life & General Insurance Company.

1.4.2 Specific objectives

The research has the following specific objectives;

- To examine the effect of customer services on customer retention;
- To determine the effect of renewal premiums on customer retention;
- To determine the extent to which customer relationship affects customer retention;
- To examine the effect of competition on customer retention
- To examine the effect of switching barrier on customer retention.

1.5 Significance of the study

The primary importance of the study is to solve the operational problem of insurance companies in the issue of customer retention in life insurance sector. Once insurance companies understand the factors affecting customer retention in the life insurance sector, they can design their marketing strategies to cope up with the challenges of retaining existing customers so as to enjoy the advantages of costs savings, maintenance of market share and increased profitability. Management can identify and improve upon factors that can limit customer defection or increase customer retention rate. Another importance of the study is to contribute empirical evidence to the existing marketing literatures in the understanding of the impact of customer service, premiums, relationship, competition and switching barriers on customer retention in the context of life insurance business in Addis Ababa, Ethiopia.

1.6 Scope and limitation of the study

1.7.1 Scope of the Study

Conceptually the study is delimited to assessing factors that have contribution on customer retention in the life insurance sector. Geographically it is delimited to the town of Addis Ababa and thus the findings of the study could not be generalized to the life insurance sector of Ethiopia in general.

1.7.2. Limitation of the Study

Conceptually only four factors (customer satisfaction, trust, price, and switching barriers) were captured for this research purpose. Methodologically out of the total of 18 insurance companies operating in the Ethiopian insurance industry, only one insurance companies were selected for this research purpose. This research focused only on the perceptions of customers and did not measure the perception from personnel of the insurance companies. The data collection tool self-administered questionnaire to measure the relationships between the variables of the study.

1.7 Organization of the study

The thesis comprises of five main chapters. Chapter one discusses about the general introduction covering the background of the study, the statement of the problem, the objectives, significance, scope and how the research. Chapter two mainly revolves on the review of related literatures on customer retention with regard to the factors. Chapter three provides the methodology applied to achieve the research objectives including primary data and method of analysis. Chapter four covers the analysis, summarization and presentation of data. This chapter discusses the result obtained in accordance with the research questions. Finally, chapter five come up with major findings, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITRATURE

This chapter presents existing researches related with the thesis topic. All theories associated with the study are found under theoretical review followed by empirical review so as to identify research gaps. Afterwards, a conceptual framework shows a relationship between variables and customer retention.

2.1 Theoretical Review

2.1.1 Overview of Customer Retention

Customer retention is a process which makes customers loyal towards specific company and repurchase product from this company (Cannie, 1994). Mostly companies gain benefits from retention in the form of profit, lower cost and long lasting benefits. Retention is only one element that increases profit from 5% to 85% (Zeithmal, 1996).

Customer retention is the concern of every CEOs in every organizations. However, the early 2000s have already seen customer defections increase with such force that customer relationship and retention have literally become the top CEO issues (Harvey T.: 2003).

Currently, organizations are also greatly valuing the necessity of retention of existing customer. Moreover, customer retention and profitability of organizations are directly related each other. Literatures support that 5% increment in retention results in 25% profit for the organization. According to reports, by reducing customer defections by only 5 percent, companies can improve profits by anywhere from 25 per cent to 85 percent. …the firm's first line of defense lies in customer retention (Philip Kotler, et al, 1999).

Customer retention has been conceptualized as a dimension of a customer relationship construct (Zeithaml, Berry & Parasuraman, 1996). The terms customer retention and customer relationship are often used interchangeably in literature. However, customer retention and relationship are not surrogates of each other because the two terms can refer to different things. Hennig-Thurau and Klee (1997) also suggested that the conceptualization of customer retention needs further clarification. Zineldin (2000) views retention as a commitment to continue to do business or exchange with a particular company on an ongoing basis. A more comprehensive definition of retention is the customer liking, identification, commitment, trust, ingness to recommend and repurchase intentions, with the first four being emotional-cognitive retention constructs and the last two being behavioral intentions (Strauss & Friege, 1999).

Today, customers are exceptionally valuing for what they experience in the company throughout the service points in the company. The success of the companies depends on their customer's experiences during the life time of the customer in that particular organization. The focus of great service organizations today is on the total customer experience. They recognize that the customer's experience of the organization is based on its communication/marketing efforts, its branding and interaction with employees as well as its products or services (Lawrence A. and Nancy S. 2010).

Customer retention has financial impact on company which is based on the assumption that obtaining new customers are costly than retaining existing customer because for new customer different expenses are incurred like advertising, operating expense and promotion (Anderson & Sullivan, 1990; Reichheld & Sasser, 1990). Retention and acquiring new customers is used for revenue and enhance market share of company (Rust, Zohorik & Keiningham 1995). Retention not only enhances market share growth but also reduce the cost (Fornell & Wernerfelt, 1987).

Norway's Technology and innovations are playing a vital role in customer retention by providing a greater opportunity for companies to customize their services based on the individual customer interest and conveniences. "Consumers can now leisurely search the planet for the best match to their needs, and with a mouse-click open a new account with a new provider in, say, Ireland or India, wherever and whenever they choose. As a result, one of the greatest business issues today is customer retention (Harvey T.:2003).

Lawrence A. et al, emphasizes on the importance of relationship marketing to reduce price competition and increase retention. The buyer may have a relationship with a firm itself and/or a specific contact person, but personal relationships are believed to result in greater commitment (Lawrence A., et al: 2010).

Customer retention is linearly related to customer relation management program the organizations that indicates how far the organization takes a measurable steps to retain their customers and convert them to loyal customers. What starts out as an objective to increase customer retention, repeat business, and top-line revenues, ends up as an initiative to implement a Customer

Relationship Management (CRM) system? One of the effects or results of improving customer satisfaction is an increase in customer relationship or customer retention (Bill S.:2005).

In addition to that in order to enhance customer retention, meeting customer satisfaction is the key that organizations needs to focuses. Kotler describe such important ideas as follows; “And the best approach to customer retention is to deliver customer satisfaction those results in strong customer relationship (Philip Kotler, et al, 1999).

True, offering greater service quality results in higher costs. However, investments usually pay off because greater customer satisfaction leads to increased customer retention and sales. Customer retention is, perhaps, the best measure of quality and reflects the firm's ability to hang on to its customers by consistently delivering value to them. Thus, where the manufacturer's quality target might be 'zero defects', the service provider's goal is 'zero customer defections (Philip Kotler, et al, 1999).

In today’s business competitive environment, organizations that are very keen in customer retention are the most successful organizations that takes the longest journey. Such kind of quality is not the indication of being competitive organization, it also the indication of the organization’s strength which could serve as a unique competitive advantage that organization. As Philip Kotler outlined in his book entitled Marketing Management, “Today, outstanding companies go all out to retain their customers (Philip Kotler, et al, 1999).

According to Aspinall, Nancarrow, and Stone, 2001, even though the meaning and measurement of customer retention varies across industries, there seem to be a general consensus that a firm which focuses on customer retention by using the appropriate strategies can enjoy some economic benefits (Buttle, 2004). The benefits of retaining customers to the organization are higher margins and faster growth, derived from the notion that the longer a customer stays with an organization, generally the higher the profit (Reichheld & Kenny, 1990).

As the competition becomes stiff and market potentials becomes exhausted, the cost of securing new customers becomes unaffordable for many organization. Competition is increasing and the costs of attracting new customers are rising. In these markets, it might cost five times as much to attract a new customer as to keep a current customer happy (Philip Kotler, et al, 1999).

2.1.2 Life Insurance in the context of Africa

In the eyes of life insurance professionals, investors and marketers; the Ethiopian economy with its over 100 million population predominantly young populations presents profitable and diverse business opportunities. As a contrary, many African countries such as Kenya, South Africa, and Zambia with less population size compared to Ethiopia are able to generate considerable amount of premium from their life insurance business. These nations are also far better than Ethiopia in terms insurance penetration rate. Below is a table that shows penetration rate and the portion of life insurance premium against the total premium by 2020.

Country's Name	%age of Life Premium	Insurance Penetration Rate
South Africa	77%	16.99%
Kenya	45%	2.17%
Zambia	75.5%	2.63%
Morocco	77.8%	4.45%
Namibia	73.4%	10.11%
Ethiopia	6%	0.45%

Figure 1: African countries insurance penetration rate and percentage of Life Insurance Premium

As per the table summarized above, South Africa accounts for the highest percentage of life premium (77%) and the highest penetration rate (17) insurance penetration rate country in Africa. Morocco is of course the highest of other African countries in terms of percentage of life premium which accounts for 78% of their premium generated from life insurance business. Namibia is also the second country in Africa advanced in insurance penetration. Our neighboring country, Kenya with a population of 45 million is by far advancing in percentage of life premium(45%) and insurance penetration rate (2.17%) compared to Ethiopia which contributes only 6% of life premium to the total insurance premium with 0.45% insurance penetration rate.

2.1.3 Overview of Life Insurance

According to commercial code of Ethiopia, A life insurance is a contract whereby the insurer undertakes against the payment of one or more premiums to pay to the subscriber or to the beneficiary a specified sum on certain conditions dependent upon the life or death of the subscriber or third party insured (Commercial Code of Ethiopia 691).

Authors Emmett J. & Therese M. tries also to define life and medical insurances more precisely. According them, Life Insurance is designed to provide protection against two distinct risks: premature death and superannuation. Whereas, accident and health insurance (or, more simply, health insurance) is defined as "insurance against loss by sickness or accidental bodily injury." The "loss" may be the **loss** of wages caused by the sickness or accident or it may be expenses for (Emmett J. & Therese M.: 2008).

2.1.3.1 Types of Life Insurance

According to the Insurance Information Institute, there are two major types of life insurance: term and whole life (Insurance Information Institute: 2010).

a. Term Life Assurance

Term Life Term insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years. Most term policies have no other benefit provisions. There are two basic types of term life insurance policies: level term and decreasing term. Level term means that the death benefit stays the same throughout the duration of the policy. Decreasing term means that the death benefit drops, usually in one-year increments, over the course of the policy's term.

b. Whole Life/Permanent Life Assurance

Whole life or permanent insurance pays a death benefit whenever the policyholder dies. There are three major types of whole life or permanent life insurance, traditional whole life, universal life, and variable universal life, and there are variations within each type.

Many financial experts argued that life insurance to be the cornerstone of sound financial planning of households. By definition Life insurance is a risk-pooling plan, an economic device through which the risk of premature death is transferred from the individual to the insurance company.

2.1.3.2 Life Insurance Basics

According to Joyce M., life insurance is a long-term contract between a policy holder and an insurer and facilitates long term savings. Regular savings over a long period ensures that a decent amount is accumulated to meet the policy holder's financial needs at various stages in life (Joyce

M:2013). Life insurance not only provides for financial support in the event of untimely death but also acts as a long term investment. It enables a policyholder meet his/her goals such as children's education, marriage, building homes or planning for relaxed retired life. Life insurance policies normally comprise protection policies which are designed to provide a benefit in the happenings of the insured event and investment policies whose main objective is to facilitate the growth of capital or a combination of both (AKI, 2012).

Many financial experts consider life insurance to be the cornerstone of sound financial planning (Insurance Information Institute: 2010). Life insurances can be an important tool in the following situations in anyone's life:

a. **Replace Income for Dependents**-If people depend on an individual's income, life insurance can replace that income if the person dies. The most common example of this is parents with young children. Insurance to replace income can be especially useful if the government- or employer-sponsored benefits of the surviving spouse or domestic partner be reduced after he or she dies.
b. **Pay Final Expenses** Life insurance can pay funeral and burial costs, probate and other estate administration costs, debts and medical expenses not covered by health insurance.
c. **Create an Inheritance** for Heirs Even those with no other assets to pass on, can create an inheritance by buying a life insurance policy and naming their heirs as beneficiaries.
d. **Pay Federal "Death" Taxes and State** "Death" Taxes Life insurance benefits can pay for estate taxes so that heirs not have to liquidate other assets or take a smaller inheritance. Changes in the federal "death" tax rules through January 1, 2011 likely lessen the impact of this tax on some people, but some states are offsetting those federal decreases with increases in their state-level estate taxes.
e. **Make Significant Charitable Contributions** By making a charity the beneficiary of their life insurance policies, individuals can make a much larger contribution than if they donated the cash equivalent of the policy's premiums.
f. **Create a Source of Savings** Some types of life insurance create a cash value that, if not paid out as a death benefit, can be borrowed or withdrawn on the owner's request. Since most people make paying their life insurance policy premiums a high priority, buying a cash-value type policy can create a kind of "forced" savings plan. Furthermore, the interest credited is tax deferred (and tax exempt if the money is paid as a benefit).

2.1.3.3 Mechanics of Insurance: pooling and loss distribution

The core function of insurance is pooling funds and distributing a loss, if it occurs. The primary function of insurance is the creation of the counterpart of risk, which is security. Insurance does not decrease the uncertainty for the individual as to whether the event occur, nor does it alter the probability of occurrence, but it does reduce the probability of financial loss connected with the event (Emmett & Therese, 2008). The insurance contract provides a valuable feature in the freedom from the burden of uncertainty.

The general important role of insurance companies in insuring property and life of the life assured significantly contribute to the stability of the financial system in particular and the stability of the economy of a country in general.

2.1.3.4 Overview of Ethiopian Insurance Sector

As per the global economy.com, the Ethiopian insurance penetration rate estimated to 0.45% which is far less than the global trend accounted for 1.62%. Poor public awareness, lack of skilled manpower, companies internal inefficiencies, loss government regulation, low per capita income, political instability and other factors are contributing to the low insurance penetration rate in Ethiopia (Mekonnen G. 2015).

According to fitchsolution.com country’s economic analysis, the Ethiopia's insurance market is set to remain at an embryonic stage of development, characterized with low levels of insurance penetration and density. The market is dominated by non-life insurance, with life insurance only accounting for 7.6% of total insurance premiums written. Both life and non-life insurance are growing from a very low base and continue to be heavily dependent on the uptake of coverage among the relatively small middle class. Non-life premiums growth be supported by robust headline GDP growth, steady foreign investment, sound infrastructure development efforts and elevated government spending levels. Although the market has significant untapped long-term growth potential, structural challenges such as poverty, famine and low incomes limit the growth of life insurance and wider uptake over the foreseeable future (https://store.fitchsolutions.com/insurance/ethiopia-insurance-report).

The first domestic insurance company in Ethiopia called Imperial Insurance Company which established in 1951. Currently, as per the official web site of National Bank of Ethiopia, there are 18 actively registered and operating insurance companies (https://nbe.gov.et/insurers/). Of course, 11 of them are composite insurance companies that are delivering both general and long-term Insurance Services while others are only General Insurance companies. Currently, there is no insurance company providing long-term insurance services.

According to a survey made in 1954, there were nine insurance companies that were providing insurance service in the country. With the exception of Imperial Insurance Company that established in 1951, all the remaining of the insurance companies were either branches or agents of foreign companies. In 1960, the number of insurance companies increased considerably and reached 33. At that time insurance business like any business undertaking classified as trade and administered by the provisions of the commercial code (Dr. Yuvaraj & Abate G. 2013).

Insurance is the pooling of money by a company from a group of people or organizations, to pay for the fortuitous losses that any of them may suffer. The money that the people pay to the insurance company is called the premium, and for this premium, the company promises to indemnify any of its customers for covered losses. The company may also provide risk management services (Mebeki H. 2021).

2.1.3.5 Customer Retention & Insurance

Customer retention is an integral part of any insurance services, especially for Life insurance Companies. This is mainly because of that the life insurance contracts, by their nature are human centric and long-term contracts. In some situations these long-term relations with the policyholders sustains for the whole life of the policyholder. It is necessary to identify the key success factors in the life insurance industry, in terms of customer retention, so as to survive the intense competition and increase customer retention.

Various literatures indicate that attracting a new customer may costs five times as much as retaining an existing one which calls insurance companies should give prior attention to relationship marketing, the principal ingredient for customer retention. Companies that are successful in retaining their customer are companies with high customer centric approach able to manage their Customer’s Experience at different service contact points.

According to Kotler & Armstrong argument, wise firms measure customer satisfaction regularly, because it is one of the key factor to retain the existing customer. A highly satisfied customer generally stays loyal longer, buys more as the company introduces new and upgraded products, talks favorably to others about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company, and costs less to serve than new customers because transactions can become routine. Greater customer satisfaction has also been linked to higher returns and lower risk in the stock market (Kotler & Armstrong, 2012).Below are some facts about customer retention suggested by Kotler & Armstrong;

- Acquiring new customers can cost five times more than satisfying and retaining current ones. It requires a great deal of effort to induce satisfied customers to switch from their current suppliers.
- The average company loses 10 percent of its customers each year.
- A 5 percent reduction in the customer defection rate can increase profits by 25 percent to 85 percent, depending on the industry.
- Profit rate tends to increase over the life of the retained customer due to increased purchases, referrals, price premiums, and reduced operating costs to service (ibd).

As an insurance professional, the importance of customer retention is multifold to the insurance company as well as to the insured. The premiums collected during the life of the policy gradually reduced the impact of losses to the insurers, provides an opportunity for additional investment and maximizes the profitability of the insurance businesses.

2.1.3.6 Customer Retention versus Profitability

From our previous discussion, under sub topics of basics of Life Insurance; we have understood life insurance premium is one of the principal tool to create a considerable amount of life fund, which in turn gives the life insurance company the opportunity to maximize and generate income from investment return on either a short-term or long-term investment vehicles such as time deposits, real estates, stocks and so on. Since the life insurance business is long-term business, some types of life insurance policies create a cash value that, if not paid out as a death benefit, can be borrowed or withdrawn on the owner's request. Since most people make paying their life insurance policy premiums a high priority, buying a cash-value type policy can create a kind of "forced" savings plan. Furthermore, the interest credited is tax deferred (and tax exempt if the money is paid as a death claim), (Insurance Information Institute: 2013).

Therefore, retaining life insurance policyholders for a longer durations could be the critical factor that determine profitability of the life insurance business, which of course is the underline theme of the study.

As we all know from being customers ourselves, poor service can undermine all of a company's efforts to retain and expand its customer bases. Repeat customers are the bloodline of a subscription-based business, so losing them severely impacts future revenues and profitability.

2.1.3.7 Marketing Strategy versus Customer Retention

Marketer usually follows two kinds marketing strategies regarding customer retention. These are offensive marketing strategy and defensive marketing strategy. Offensive strategy is focused on achieving competitive advantage through wining the interest of contender's customers, whereas defensive strategy is focused on attacking/responding the competitor in order to keep the position or retain the existing customers. As Kotler and his friends stated; Offensive marketing typically costs more than defensive marketing, because it takes a great deal of effort and spending to coax satisfied customers away from competitors(Philip Kotler, et al, 1999).

Shauna in her unpublished article entitled articulates and strengthen the need for implementing good customer services as a milestone for acquiring new business and hence attaining growth. There's no doubt that customer service is vital to any solid company. While acquiring new customers is important to growth, it's retention that truly drives the revenue of a company (Shauna G.:2014)

2.1.3.8 Tangible benefits of retaining customers

A number of researches have suggested that increasing retention is more effective than acquiring new customers, in terms of cost-benefits (Gupta, Lrhmann & Stuart, 2004; McCarthy, 1997). New customers take time and effort for firms to develop and they may not purchase in volume at the first few purchases. We know that keeping at least five per cent customers over their purchasing lifetime can sharply increase profitability (Reichheld, 2011) compared to those companies that continually have to win customers. This phenomenon is related to customer lifetime value – in other words, the value a firm can gain from a customer over their entire lifetime. It means that the longer the customer remains with a firm, the higher the profits a firm can make from them. One interesting piece of research (Gupta, Lrhmann & Stuart, 2004) investigated companies‟ annual reports and statements to show the relationship between retention and company financial value. That research concluded that customer lifetime value improves five percent when retention rate increases by one per cent. If a customer defects, the potential of making better profits be lost. Other research shows that loyal customers are not so price sensitive and are willing to accommodate occasional poor service quality in preference to switching if they believe they have a good relationship with the company (Gupta, Lrhmann, & Stuart, 2004; Reichheld & Sasser, 1990; Reichheld, 2011; Zeithaml, Berry, & Parasuraman, 1996). Frequent flyers of domestic Qantas Airline are ing to pay more for the same journey over that of other budget airlines. Why? Survey results show that rather than taking time and the risk to try services from cheaper service providers, customers prefer to stay with the supplier that they know and more often provides a satisfactory service (Ranaweera & Prabha, 2003).

A lower operational cost resulting from a stable customer base is another tangible advantage of having loyal customers. Attracting new customers involves high start-up costs; and turning them into profitable customers takes an extensive period of time (Zeithaml, Berry & Parasuraman, 1996). Start-up costs involve promotion costs and time costs for relationship development. The profit generated from new customers invariably does not cover the high start-up costs. Only by developing long-term relationships with customers can optimum profits be made. It costs between four and ten times more to acquire a new customer than it does to keep an existing one. Some sources say cost of acquiring a new customer is over 30 times that of keeping an existing one. A key element in the cost is probably the industry or market sector your customers are in (The Chartered Institute of Marketing 2010).

2.1.3.9 Intangible benefits of retaining customers

Apart from the tangible benefits of customer retention, customer relationship brings numerous additional advantages to the company. Customer relationship is evidence of a continued relationship (Reichheld & Sasser, 1990), and it is developed through regular interaction and customer satisfaction (Brown, Cowles & Tuten, 1996). Positive referrals given by customers to their friends are considered evidence of loyal behavior. So, word of mouth from loyal customers is powerful free advertising. Furthermore, customer retention also has a positive influence on employee retention (Heskett, J. et al: 2011). Regular customers are consistent with their requirements and they have a more realistic expectation of the service delivery than new customers; so they are easier to be serviced. Moreover, employees get greater work satisfaction by serving loyal customers than serving dissatisfied and complaining customers (Reichheld & Sasser,1990).

2.1.3.10 Factors Influencing Customer Retention

i. **Customer Service**

Customer servicing today has become the focal point of insurance companies. It is an area where the new companies are clearly ramping up to bring their best practices and operational efficiencies by appropriate use of technology. There is a greater sensitivity in dealing with customers (Joyce M: 2013). However, a lot needs to be done. Insurers need to fast gear up to the situation and the real response and turn-around time in delivery of services needs to be reduced in specific areas like delivery of first policy receipt, policy documents, premium notices, maturity payments, death claims, etc. Sharma and Agarwal (2005).

Over recent years organizations have placed increasing emphasis on customer service as a means of gaining competitive advantage. Successful service organizations constantly strive for higher levels of customer service. As competition has become more global and more intense, many organizations have realized that they cannot compete on price alone. It is in these marketplaces that many companies have developed a strategy of providing superior customer care to differentiate their products and services (Sarah C.;2008).

A service firm can differentiate itself by delivering consistently higher quality than its competitors provide. Like manufacturers before them, most service industries have now joined the customer-driven quality movement. And like product marketers, service providers need to identify what target customers expect in regard to quality service. Unfortunately, service quality is harder to define and judge than product quality. For instance, it is harder to agree on the quality of a haircut than on the quality of a hair dryer. Customer retention is perhaps the best measure of service quality; a service firm’s ability to hang onto its customers depends on how consistently it delivers value to them. However, good service recovery can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and relationship than if things had gone well in the first place (Sarah C. 2008).

Successful service organizations constantly strive for higher levels of customer service. When online bookseller Amazon established, its founder recognized that it could not offer comfy sofas or coffee to those who browse through its virtual bookstore, so it set about finding innovative ways to enhance the customer experience.

CRM enables companies to provide excellent real-time customer service through the effective use of individual account information. Based on what they know about each valued customer, companies can customize market offerings, services, programs, messages, and media. CRM is important because a major driver of company profitability is the aggregate value of the company's customer base (Kotler & Keller: 2012).

ii. Premium

In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that customers exchange for the benefits of having or using the product or service. Historically, price has been the major factor affecting buyer choice. In recent decades, non-price factors have gained increasing importance. However, price still remains one of the most important elements determining a firm's profitability (Kotler P.et al: 2005). Price is the only element in the market mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements (price can be changed quickly). At the same time, pricing is the number one problem facing many marketing executives, and many companies do not handle pricing well.

One of the common mistakes include pricing that is too cost oriented rather than customer-value oriented, and pricing that does not take the rest of the marketing mix into account (Kotler & Armstrong, 2008). There are two tendencies with respect to customers' perception of the price of the product. The first maintains that customers regard high prices as a signal of high quality and vice versa (Teas & Agarwal, 2000); while the second, in contrast, suggests that low prices can also function as a signal of good value for money (Kirmani & Rao, 2000). In either case, whether a low price is perceived as low quality or a high price is perceived as abusive, when customers are dissatisfied with the value for money or perceive the price to be unfair, their intentions be to switch suppliers (Homburg, et al: 2005). Keaveney (1995) suggests that customers voluntarily switch suppliers because of their personal dissatisfaction with the price paid. This dissatisfaction arises when the customers perceive the price to be unfair or excessively higher than alternative options Keaveney (1995). Bansal, et al: (2005) also show that among the reasons customers switch suppliers, price-related issues are important. Buyers are conscious of the savings opportunities that other options provide, and the chance to make savings can become a substantial concern, and the motive for an immediate switch (Wathne, Biong & Heide, 2001). Abrat and Russell (1999) found that customers‟ perception about the price of the company's products or services is important requirement for the customers to keep on with the existing service providers. According to Martin-Consuegra (2007) those customers who are price conscious are usually not ready to pay the price for service or product if they perceive it as not reasonable. Peng and Wang (2006) explored that customers often switch their service providers mainly due to some pricing issues. Abrat & Russell (1999), Schriver (1997), Martin (2007), Mouri (2005), Kollmann (2000) found that price is the most significant factor for retaining the existing customers. Perceptions of price have significant and positive effect on the level of repurchase intentions (Ranaweera and Neely, 2003). Given the uncertainty in the nature of business run by the insurance companies, customers choose the companies mostly based on price (Oketch, 2014). Therefore, this research would like to evaluate the relationship between price and customer retention.

iii. Switching Barriers

Perceived switching barriers is defined as the consumer's assessment of the resources and opportunities needed to perform the switching act, or alternatively, the constraints that prevent the switching act (Oketch, 2014; Ranaweera and Prabhu, 2003). According to Keaveney (1995), service switching may be due to critical incidents, such as attraction by competitors, inappropriate employee responses to service failures, pricing problems, core service failures, service encounter failures, lack of convenience, ethical problems or changes in the consumer's or service provider's situation (involuntary switching). Researches also show that switching barriers may have both main and interaction effects on customer retention (Gremler and Brown, 1996; Bansal and Taylor, 1999; Lee and Feick 2001). Jones, Mothers Baugh, & Beauty (2000) explained that switching barriers are the factors that force the customers to stay with existing service providers. They investigated that switching barriers such as switching cost and interpersonal relationship made the switching costly for the customers. Researcher suggests that an ideal way for firms to prevent customer resentment is to create switching barriers that also add value to the service (Ranaweera, and Prabhu, 2003). Therefore, this research would like to evaluate the relationship between switching barriers and customer retention.

iv. Switching Cost

Switching cost is formally defined as the cost of changing services in terms of time, monetary value, and psychological factor (Dick and Basu, 1994). In the insurance market, switching costs may be incurred due to switching from current to another insurer (iamson, 1979). Such costs may include search costs (the costs of time spent for searching information about claims settlement service, investment behavior, and financial stability of insurance companies, etc.) and transaction costs (the costs of time and effort needed for bargaining price and administrative activities) (Eckardt, 2008; Posey and Yavas, 1995; Posey and Tennyson, 1998; Schlesinger and Schulenburg, 1991; and iamson, 1979). These cost enable the insurer to exert a certain degree of monopolistic power over its current customers (iamson, 1979). Thus, once an insurance company is chosen, there exists a switching cost for changing insurers, thus reducing the intention of customers to switch (Dahlby and West, 1986; and Schlesinger and Schulenburg, 1993). Switching costs make changing service providers more expensive and create customer dependency on the service provider (Morgan and Hunt, 1994). As perceived switching costs increase, customers are less likely to change service providers (Ping, 1993; Bansal and Taylor, 1999; Jones, Mothers Baugh, & Beauty 2000; Lee and Feick 2000; and Ranaweera and Prabhu, 2003). Thus, the larger are the switching costs, the higher is the customer retention of the same service provider. Jones, Mothers Baugh, & Beauty (2000), Morgan & Hunt (1994) explored that switching cost is a key dimension that has a direct effect on the retention of existing customers. Burnham, Frels & Mahajan (2003) explored that switching cost is identified as a main cause of customer retention. Ping (1993) found that when customers perceive the switching costs to be high, they tend to be loyal. Jones and Sasser (1995) mentioned switching costs as one factor that determines the competitiveness of market environment, since high switching costs discourage consumers to switch to alternate providers. Lee and Feick (2001) and Ranaweera and Prabhu (2003) have tested and confirmed the positive effect of switching costs on customer retention in continued purchasing settings of mobile phone services in France and the fixed line telephone market in the UK respectively. As the switching cost increases, risk and burden is increased on the customer side and dependency on the service provider gets increased as a result (Jones, Mothers Baugh, & Beauty 2000; Morgan & Hunt, 1994). In other words, the more consumers recognize the switching cost, the higher retention rate even though customers have dissatisfaction on the service. Scholars contend that the costs of switching providers may be more critical to services than goods (Zeithaml 1981) and in relational exchanges (Guiltinan 1989).

v. Relationship

The long term interpersonal relationship between the company and customers offers a lot of benefits to the customers: social benefits such as fellowship and personal recognition, psychological benefits such as reducing anxiety and credit, economic benefits such as discount and time-saving, and finally customization benefits such as customer management and etc (Berry, 1995; Peterson 1995). Therefore the interpersonal relationship between the company and the customers can be an important factor as a switching barrier. The continuous interpersonal relationship becomes a relationship-specific asset which makes a customer to pay cost to be out of the relationship and therefore protects customer from being apart from the relationship with the company. Jones, Taylor, Becherer & Halstead (2003) investigated that powerful interpersonal relationship has an optimistic impact on the repurchase intent of the current consumers. The relationship marketing literature implies that interpersonal relationships are particularly important in the development of relationship to services (e.g., Berry 1983; Crosby, Lawrence, Kenneth and Deborah 1990; Czepiel 1990). That is, with services an additional important component of the product offering can be the interpersonal interaction between employees and customers (Surprenant and Solomon 1987). The three characteristics of services; intangibility, heterogeneity, and interaction intensity provide opportunities for person-to-person interactions (Czepiel and Gilmore 1987). Unlike goods, many services are almost exclusively based upon person-to-person interactions (e.g., beauticians, interior decorators, gynecologists)

Empirical findings of preceding researchers on the relationship between price and customer retention/relationship in a number of industries. Fair price has a significant effect on customer switching intentions, which means that unfair price motivates customer intentions to switch the bank in the case of Bank of Palestine and Cairo Amman Bank in Gaza Strip (Murad, 2011). Empirical support for the price perceptions – customer retention link in the service sector is scant. Indeed, one of the few exceptions is the recent study by Varki and Colgate (2001). Their review illustrated that given the importance of price perceptions, surprisingly little work has been done on the impact of price in the service sector and they argued the need for future research to focus more on this link. Based on a survey of the banking sector, they found evidence to support a direct positive association between price perceptions and customer behavioral intentions. Indeed, if such a hypothesis holds true in a service shop environment such as banking, it is expected that the same association would be similar, if not stronger, in a mass service such as the fixed line telephone sector, where the importance of price has been argued to be even more.

Relationship to a brand is the strongest type of equity (although in the extreme case of addiction it has some undesirable consequences), and the most beneficial for sellers. In the extreme (100 percent retention), it guarantees a non-ending stream of income. It also may pass from one generation to the next (Moore, Wilkie, and Lutz, (Donald R. & Russell S. 2008). The basic reason for caring about satisfaction is that it leads to relationship and customer retention (Gupta and Zeithaml, 2006)

vi. Competition

Today the marketing concept has been translated into a strong focus on customer retention and service. Less commonly acknowledged is the fact that a competitor orientation, especially in today's business environment of more competitors and shorter life cycles, is equally important (Donald R. & Russell S. 2008).

The advent of increasing globalization allows organizations to compete on a regional, national and pan-continental basis. Amazon.com has broken traditional consumer purchasing patterns on a global scale via the use of technology. Today, its market share is threatened by cyber competitors. The message is clear: nobody can rest on their laurels. Competition is global, not local.

2.2. Empirical Review

In the course of exploring the existing literatures on life insurance customer retention, the researcher brought out empirical works that directly relate to the independent variables with customer retention.

Empirical findings of preceding researchers on the relationship between customer satisfaction and customer retention in insurance industry were reviewed. Though the topic somehow similar and the industry the same regarding various research papers, I could not found a research paper directly wrote on assessing life insurance customer retention. Moreover, most of research paper were concentrating on customer satisfaction as a cause for insurance customer retention. However, this research paper try to analyses the effect of five explanatory variables in order to address the issue sufficiently as well as to minimize knowledge gaps in the area of customer retention.

2.2.1 Customer Service

Many of the research works identified customer satisfaction as the main factor for customer retention. According to Hanna D (2014), customer satisfaction is found to have a strong and positive influence on customer retention. According to the study, the result implies NISCO should give much attention to its customer satisfaction in order to retain their customer with them (Hanna D.:2014).

According to Bolanel O. research findings, it can be concluded that customer satisfaction as a whole has independently contributed immensely to the retention of respective customers. More so, there is a significant relationship between customer satisfaction and customer retention (Bolanel O. 2015).

The positive correlation between satisfaction and customer retention evidenced by previous researchers (Lai, Liu and Lin, 2011; Wilson, Soni and O"Keeffe, 1995). This implies that when customers are satisfied by the service of an insurance company, they intend to remain with their current insurance company. Thus, increased satisfaction results in increased customer retention.

According Samrawit A (2020), responsiveness (customer service) is found to have a positive and statistically significant relation with customer retention. Therefore, it is possible to conclude that the corporation is responsive in solving the complaints of its customers and this is important for the insurance to build and develop strong relationship with its customers.

2.2.2 Premium

As per Genet's finding, price is the most important antecedent of customer retention followed by trust, satisfaction and switching barriers. Thus insurance companies need to focus on satisfaction, trust, price and switching barriers especially on price, trust and satisfaction.

Chege's findings indicated that 60% of the respondents agreed that cost to a very large extent affects customer retention in the insurance industry, 24% said it affects to a large extent, 13% to a moderate extent, 3% to a low extent and none to a very low extent. Majority of respondents agreed that cost to a very large extent affects customer retention in the insurance industry (Chege W. 2019).

On the other hand, Getnet's research findings shows that, all the independent variables have statistically significant and positive correlation with customer retention supporting all the four alternative hypotheses of the research. The strength of correlation is highest for price followed by trust, satisfaction and switching barriers (Getnet A.2016). Similarly, as per the finding of Samrawit, empathy, trust, responsiveness, communication and commitment variables have positive effect on customer retention (Samrawit A. 2020).

According to Negash's findings on the role of CRM on customer retention, all the independent variables (empathy, responsiveness trust, communication and commitment) are positively and significantly correlated with the dependent variable (customer retention) (Dambush N.2016).

According to Hanna D., the result indicates, customer satisfaction has a positive and strong relation with customer retention. The logistic regression shows a satisfied customer is three times more likely to be retained than unsatisfied customers (Hanna D.: 2016).

The finding of Getnet state that, the regression coefficient of .149 gives the estimated change in customer retention associated with a unit change in satisfaction. Thus, insurance companies should exert maximum effort so as to enhance customer satisfaction by exceeding customers" expectation on both underwriting and claims service (Getnet A.:2016).

The research by Hanna D, also found that price has negative but insignificant effect on customer retention. According to the finding, a customer who feels the price of the company is not fair is 0.94 times only likely to stay than a customer who feels the opposite. This signifies that ELIG Customers react less considerably regarding price matters in order to decide whether to continue or to leave the company(Hanna D.: 2016).

As per Getnet's research findings, the regression coefficient of .430 gives the estimated change in customer retention associated with a unit change in price. Thus, insurance companies should charge reasonable price and grant discount to existing customers at time of renewal. In order to eliminate or minimize the impact of price reduction on profitability, an insurance company should be a cost leader by avoiding claims leakage by means of efficient claims management (Getnet A.:2016).

As per Hanna's finding, the study come across switching barrier has positive relation but again insignificant effect on customer retention. The result shows customers of ELIG less determined by switching barrier (Hanna D.: 2016).

According to Getnet, the regression coefficient of .096 gives the estimated change in customer retention associated with a unit change in switching barriers. Therefore, insurance companies should strengthen interpersonal bond by developing friendly and comfortable relationship so as to raise customer retention (Getnet A.:2016).

2. 3. Conceptual Framework and Hypothesis of the study

2.3.1 Conceptual Framework of the study

Conceptual frame work is the foundation that the entire research is based on and a good model should help in identifying and labelling the underlying variables in the circumstances that are related to the research problem (Sekaran, 2005). It is the demonstration of relations between variables. The conceptual frame work for this research is based on the variables/constructs captured during the course of thorough literature review concerning the topic of customer retention in the context of service organizations.

The researcher combined these four variables in to a single model to analyze whether these variables really determine customer retention in life insurance sector in Addis Ababa, Ethiopia.

Dependent and independent variables: A concept which can take on different quantitative values is called a variable. If one variable depends upon or is a consequence of the other variable, it is termed as a dependent variable, and the variable that is antecedent to the dependent variable is termed as an independent variable (Kothari, 2004).

The following conceptual model shows that the dependent variable, Customer Retention, which is the variable of primary interest, in which the variance is attempted to be explained by the five independent variables of Customer service, , Relationship, Competition, Premium and Switching barriers. The proposed model and the related hypotheses are tested in the context of the life insurance sector in Addis Ababa, Ethiopia.

Independent Variables

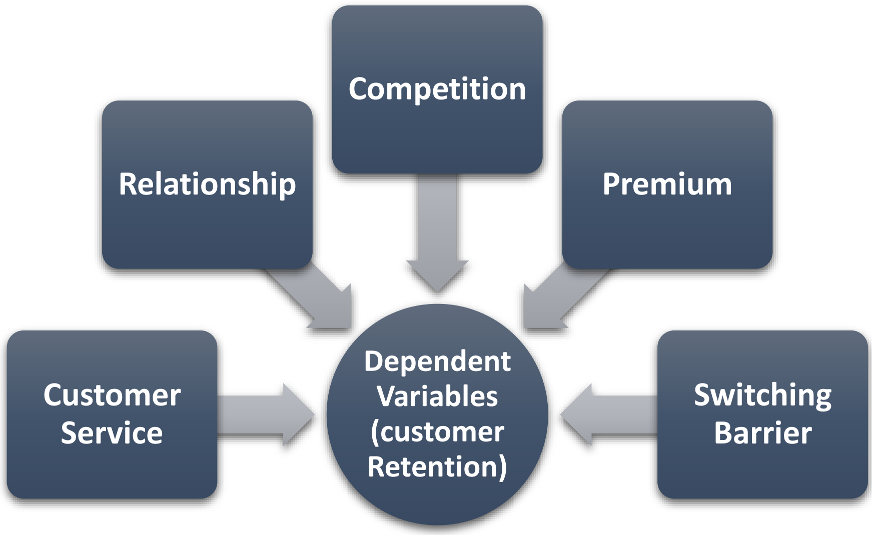

Figure 2 Conceptual Framework of the study on dependent versus independent variables

2.3.2 Research hypothesis

For this study, the following hypotheses are developed and tested using the data gathered from sample respondents.

Ha1: There is positive relationship between Customer services and customer retention.

Ho1: There is no positive relationship between Customer services and customer retention.

Ha2: There is a positive relationship between premium and customer retention.

Ho2: There is no positive relationship between premium and customer retention.

Ha3: There is a positive relationship between relationship and customer retention.

Ho3: There is no positive relationship between relationship and customer retention.

Ha4: There is a positive relationship between Competition and customer retention.

Ho4: There is no positive relationship between Competition and customer retention.

Ha5: There is a positive relationship between switching barrier and customer retention.

Ho5: There is no positive relationship between switching barrier and customer retention.

2.4 Definition of Factors

i. **Customer Services is** providing **e**xemplary service that required to build a sustainable business that has a loyal customer base and resulted to achieve benchmarked levels of customer care (Kotler & Kevin:2012).

ii. Relationship is a commitment to rebuy or re-patronize a preferred product or service of the same company (Kotler & Kevin:2012).

iii. Premium the price for insurance services paid by the insurance policy buyer which includes the provision for anticipated losses (the pure premium) and for the anticipated expenses (loading) (Emmett J. & Therese M.: 2008).

iv. Competition; in other words, a competitor is defined as one competing for the same customers (Donald R. & Russell S.:2008, page 30)

v. Switching Barriers: It is any factor that makes it difficult or costly for customers to change providers (Jones et al 2002, p. 445).

CHAPTER THREE

RESEARCH METHEDOLOGY

This chapter describes the research methodology employed for the study. It contains the research approach, method, design, population and sampling, data collection instrument and data analysis techniques. On top of that, validity, reliability and ethical consideration of the study are also embodied in this chapter.

3.1 Research approach

According to Robson (2002), based on the purposes they serve, researches can be categorized into three types: explorative, descriptive, and explanative. Exploratory research is characterized as the seeking of new insights, the looking around, and the asking of questions or the bringing of some phenomenon into new light. Descriptive research is characterized as the depicting of accurate profile of people, events, or situations. Finally, explanatory research aims at gaining an explanation of a specific problem, generally in the form of causal relationships (Robson, 2002).

Even though all of these research types have their own features and differences, they are inseparable in many ways. One cannot explain the relation of two things without first describing them. Similarly, it is almost impossible to explore new things without explaining the current situation and relationships. Therefore, a research might be one of the above three types primarily but it inevitably encompasses many features of the other two types of researches.

3.2 Research Design

This research is primarily an explanatory research because it aimed at examining the relationship between customer retention as a dependent variable and customer services, claim trend, renewal premium, customer relationship, switching barrier, and competition as independent variables. The research is typically cross-sectional study that collects data from population at a specific point of one time.

This research is primarily an explanatory research because it aimed at examining the relationship between customer retention as a dependent variable and customer service, premium, relationship, competition and switching barrier as independent variables. The finding of this research explains the relation of each independent variable with the dependent variable that makes the research type causal. However, it has also some features of descriptive research in the sense that it views how customers express their sentiment regarding ELiG using the dimensions provided. A research can also be either of qualitative or quantitative in nature. Quantitative research designs are those which generate numerical data and use statistics to improve numerical data (Leedy and Ormord, 2005:147) while qualitative designs are those that involve human events such as human interactions, social organizations, and the like (Newman and Benz, 1998: 12). Quantitative design is helpful to assess the magnitude of something while qualitative design is suitable to describe, interpret, verify and evaluate a given phenomenon (Newman and Benz, 1998: 12). This research uses a quantitative design. This is due to the nature of the research and the research question. Besides, the objective of the research is to quantify the magnitude of the impact of each independent variable on dependent variable. Using quantitative design, the research tried to quantify the correlation type and strength between the independent variables (customer services, , renewal premium, relationship, competition, and switching barrier) and its dependent variable (customer retention).

3.3 Target Population

To measure the impact of the independent variables on the dependent variable in Ethio Life & General Insurance S.C., an appropriate population should be determined. Accordingly, the researcher has identified that the total population size of the research is the number of customers of the Company. The overall active number of customers of the Company under life & health insurance department is around 158. Accordingly, the researcher has decided to study the entire customer. Therefore, the target population for this study is the customers of Ethio Life & General Insurance S.C under life & Health Department Addis Ababa.

3.4 Sampling Design

According to the data taken from the ELiG's Marketing & Business Development Department, Life & Health Department (LHD) has two branches in Addis Ababa, with a customers that are 158 in number who have an active policy. Thus, the population size for this study is 158 and the sampling method census survey.

3.5 Types of Data, Sources of Data and Data Collection Method

3.5.1 Types of Data

Both primary and secondary data could be applied in the research. The primary data collected from sample size using Likert scale questions from the sample. Secondary data such as Industry report, company's annual reports and company's internal data are applicable in the research.

Because of the conveniences arises from the nature of customers and uniformity in customers service exposure, non-probability sampling method be applicable in the research.

3.5.2 Data Sources

a. Primary Data:

The primary data collected from the customers of the insurance company's 2 branches in Addis Ababa. This is the backbone of the research's quantitative analysis. Primary data collected using questionnaire as a method of data collection.

b. Secondary Data:

Since secondary data is also as important as the primary data, the researcher has collected essential data from secondary sources. The Company's data about the number of customers, number of branches, etc. were taken from the Company's annual and quarter reports. Other secondary sources of data also include books, research papers (both published and non-published), internet sources, and articles from different magazines have taken.

3.5.3 Instruments of Data Collection

The data collection instrument that this research used is questionnaire. Questionnaire is chosen as a means of data collection because it is effective to collect data about facts, activities, level of knowledge, opinions, expectations and aspirations and attitudes and perceptions (Siniscalco and Auriat, n.d:7). The questionnaire were comprised of close-ended questions which were developed in accordance with the quantitative and qualitative data needs to address the research questions. The close-ended questions are easy to manage, respond and code (Siniscalco and Auriat, n.d:7). Hence, they offer an opportunity to present many questions to respondents without exhausting their time.

3.5.4 Procedures of Data Collection

After developing the research questionnaire, pilot test conducted. Ten randomly selected customers were asked to complete the questionnaire and suggest if they found problem in filling the questionnaire. They completed the questionnaire and forwarded their comments, which were used as a feedback to correct some errors. Finally, the Questionnaires were distributed equally (eleven for each) to all Addis Ababa branches of ELiG's LHB customers. Then with the help of ELiG's staffs, the questionnaires were filed by the respective customers of each branch who were available at the spot and collected subsequently.

3.6 Method of Data analysis

After the required data is collected, the research conducted on a three tiered analysis basis using statistical package for Social Science (SPSS) version 20. In the first tier of analysis, descriptive statistics such as frequencies were used to summarize categorical 19 variables, mostly the demographical data. Then on the second tier of analysis, the relationship between each independent variable with the dependent assessed using cross tabulation method.

Finally, after all independent variables identified to significantly associate with retention using the above method, their collective impact on retention has analyzed using binary logistic regression. All exposure variables (independent variables) have associated with the dependent variable (retention) to determine which ones had significant association. The 95% confidence interval (CI) were used to estimate the strength of association between independent variables and the dependent variable. The threshold for statistical significance set at $p = 0.05$.

3.7 Validity and Reliability

3.7.1 Validity

The validity of a measure is the extent to which it measures what it intends to measure. There are several forms of validity that differ in their method of assessment: content validity, criterion related validity, construct validity, and face validity. As with other measures, a questionnaire must have validity if it is to be useful; that is, it must measure what it is intended to measure. Of these forms of validity, content validity, construct validity, and criterion-related validity apply to a questionnaire (Rogers, 1995). In a questionnaire, content validity assesses whether the questions cover the range of behaviors normally considered to be part of the dimension that the researcher is assessing. The construct validity of a questionnaire can be established by showing that the questionnaire's results agree with predictions based on theory. Establishing the criterion-related validity of a questionnaire involves correlating the questionnaire's results with those from another, established measure (Bordens and Abbott, 2011). In order to maintain construct validity of the research instrument, the researcher adopted all items from previously tested measures applied in other countries. For the sake of content validity, the researcher conducted a pilot test of the questionnaire to gather feedback from branch managers of the selected branches of the three sampled insurance companies and from twenty existing customers. Based on a pilot test, the researcher could manage to check whether the items in the questionnaire properly address the research questions or not. The test also helped to check whether the statements of questionnaire are understandable or not by respondents.

3.7.2 Reliability

The reliability of a measure concerns its ability to produce similar results when repeated measurements are made under identical conditions. If there is more variability, the less reliable is the measure (Bordens and Abbott, 2011, p.130). If, on testing and retesting, the questionnaire produces highly similar results, it is a reliable instrument. In contrast, if the responses vary widely, the instrument is not reliable (Rogers, 1995). The most common technique used in the literature to assess reliability is to use Cronbach's alpha. Kline (1999) as cited by Field (2005) notes that although the generally accepted value of .8 is appropriate for cognitive tests such as intelligence tests, for ability tests a cut-off point of .7 is more suitable. He goes on to say that when dealing with psychological constructs; values below even .7 can realistically be expected because of the diversity of the constructs being measured.

3.8 Ethical Considerations

When conducting research, a researcher has an obligation both to the subjects of the study and the profession. How informed consent of the subjects, confidentiality of their response and other ethical issues are treated should be clearly stated Gall and Borg (1996) and Ary, Jacobs and Razavich (2002). When using human subjects in research, their rights, dignity, privacy and sensitiveness must be respected. American Educational Research Association (cited in Gall and Borg 1996 and Ary, Jacobs and Razavich 2002) In order to respect the ethical issues concerning the subjects, the subjects are informed in respect of the following points:

- their right to withdraw from the study at any time
- the purpose of research in clear, straight forward and appropriate language
- The confidentiality of their identity and data besides to be in line with the professional ethics, appropriate statistical analysis has been selected to derive conclusions and the findings are reported honestly.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

INTRODUCTION

The analysis and interpretation of the study is based on the data collected from the customers of Ethio life and general insurance company life branches currently operating in Addis Ababa. The data collected through census questionnaire method. The questionnaires were distributed to all 158 life insurance policy holders, and 158 questionnaires were properly completed and returned. Hence, the data gathered were organized and analyzed in a manner that enables to answer the basic research questions raised at the beginning of this study.

This chapter is broadly categorized into three sections. The first section explores the respondents' profile. The second section deals with multicollinearity analysis which shows whether an overlap or sharing of predictive power of independent variables is observed or not. The third section shows a brief description of the regression output and hypothesis testing result.

4.1 REVIEW OF RESPONDENT'SPROFILE

The questionnaires were distributed to the respondents who are eligibly available at the counter of selected branches. The demographic characteristic consists of age, gender, marital status, educational background, respondent's policy duration, and occupation. This aspect of the analysis deals with the personal data which is briefly described through table's found below.

Table 4:1: Demographic Data Summary

Respondents Demo		Frequency	Percent
Gender	Female	73	46.2
	Male	85	53.8
Age	<30	6	3.8
	30-45	91	57.6
	45 & 60	56	35.4
	>=60	5	3.2
Marital Status	Single	43	27.2
	Married	97	61.40
	Divorced	12	7.6

	Widow	6	3.8
Educational Level	H/School	2	1.3
	Diploma	43	27.2
	BA/BSC	88	55.7
	MA/MSC	25	15.8
Duration of Policyholders	<5Yr	80	50.6
	5-10yr	75	47.5
	>=10yr	3	1.9
Occupation	Employed	157	99.4
	Self Employed	1	0.06

(Source: Own survey result, 2022)

Out of the 158 respondents, 53.8 percent were male respondents and the rest 46.2 percent were female respondents. Among the respondents, 57.6 percent of the respondents were between the age of 30 and 45 year. Next, 35.4 percent of the respondent were between the age of 45 & 60. The largest number of respondents were married with 61.40% and 27.2 percent of the respondents were single. The largest number of respondents on the educational background field of the demography data were BA/BSC degree holders which accounts for 55.7 percent. The next largest educational background were Diploma degree holder's accounts for 27.2 percent. The significant number of respondents on the duration of the policyholder's field below five year which account for 50.6 percent. Next, around 47 percent of the respondents were between 5&10year of policyholder duration with the insurance company. On the last demographic data of the respondents, almost all of the respondents were employed which accounts for 99.4 percent. The above demographic data may give valuable information for researchers who be interested on studying on more factors that affects customer retention.

4.3 Descriptive Analysis/ Inferential Analysis

4.3.1 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	342.223	6	57.037	67.457	.000[b]
1	Residual	127.676	151	.846		
	Total	469.899	157			

a. Dependent Variable: CR

b. Predictors: (Constant), Customer Services, Customer Relationship, Premium, Switching Barrier, and Competition

ANOVA table shows that the level of significance; all predicting variables are related to the underlying factors that affects customer retention. (Table 4.6), reveals that the level of significance that it is acceptable or not. But results in table revealed that significance level is 0.000 which is less than 0.05 and it is acceptable and shows strong impact of independent variables on customer retention. This table suggested that the value of F equals to 67.457 and the significant is 0.000. Because the sig <0.05 means the confidence of this predictions greater than 95% and the probability of this prediction error is less than 0.05 which is sig 0.000. Therefore, the model is significant with linear relationship in multiple regressions and it indicates that the variation explained by the model, not due to chance.

4.3.2 Correlation Analysis (Pearson Correlation Analysis)

Correlation coefficient is a very useful means to summarize the relationship between two variables with a single number that falls between -1 and +1 (Field, 2005). A correlation analysis with Pearson's correlation coefficient conducted on all the independent and dependent variables in this study to explore the relationship between variables.

According to guidelines suggested by Field (2005) to interpret the strength of relationship between variables, the correlation coefficient(r) is as follows: if the correlation coefficient falls between .01 to .29, it is weak. If the correlation coefficient falls between .3 to .49 is moderate. And if the correlation coefficient is > .5, there is strong relationship between variables.

In this study, bivariate Pearson correlation used to examine the relationship between each of the independent variables and the dependent variable using a two tailed test of statistical significance.

Table 4.3: Pearson Correlation Analysis

Variables		Significant at 0.05 level (2-tailed).
CR	Customer Retention	0.00
CS	Customer Services	**.762****
PR	Premium	**.651****
SB	Switching Barriers	**.737****
CR	Customer Relationship	**.681****
CO	Competition	**.681****
**. Correlation is significant at the 0.01 level (2-tailed).		
*. Correlation is significant at the 0.05 level (2-tailed).		

(Source: Own survey result, 2022)

As the result shown above, Customer retention appears to be significantly correlated with five independent variable which are Customer service/CS (r=0.762), Premium/PR (r=0.651), Switching barrier/SB (r=0.737), Customer relationship/CR (r=0.681), and Competition/CO (r=-0.681). Referring to the value that has indicated on the table above, Customer Service (CS) accounts for the highest positively correlated result to the dependent variable (Customer Retention) next to switching barrier. Customer relationship and competition accounts for the same significance level of 0.681 with customer retention. Premium has significant relationship of 0.651 with customer retention.

4.3.3 Multicollinearity

The commonly used cut-off points as Pallant (2005) mentioned for determining the existence of multicollinearity among independent variables are Tolerance value and Variance inflation factor (VIF) value. Tolerance value should be greater than 0.2 and the VIF should be less than 10. Multicollinearity occurs when there are high inter-correlations among some set of the predictor variables. In other words, multicollinearity happens when two or more predictors contain much of the same information. Multicollinearity of the study is presented as follows for discussion.

Variables	Tolerance	VIF
Customer Retention	.293	3.415
Customer Services	.655	1.527
Premium	.375	2.669
Switching Barriers	.467	2.141
Customer Relationship	.466	2.145

The presence of multicollinearity poses threat to the validity of multiple regression analysis by affecting the statistical significance of beta coefficients. VIF values are all well below 10 and the tolerance statistics all well above .2; therefore, we can safely conclude that there is no collinearity with in the data. The analysis conducted to examine the relationship between dependent variable, which is customer retention and five of the independent variable including customer service, , premiums, customer relationship, competition, and switching barriers.

4.3.4 Multiple Linear Regressions

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.479	1.091		3.188	.002
	CS	.138	.051	.212	2.705	.008
	PR	.258	.048	.281	5.351	.000
	SB	.144	.046	.216	3.117	.002
	CL	.154	.048	.197	3.173	.002
	CO	.117	.050	.147	2.361	.020

a. Dependent Variable: CR(Customer Retention)

b. Independent Variable: Customer Service (CS), Premium (PR), Switching Barrier (SB), Customer Relationship (RP), Competition (CO).

Correlations are very useful research tools but they tell us nothing about the predictive power of variables (Field, 2005). To support the correlation tools, a regression analysis implemented. A regression analysis used to further investigate the relative importance of the independent variables in predicting the dependent variable. In other words, it answers the second research question of the research. Table 2 shows the result of regression analysis. Regression analysis is a statistical method which is used to explain and predict dependent variable from independent variables. In regression analysis the predictive model is used to predict the values of dependent variable from independent variables.

4.3.5 R squared/Goodness of Fit

R-Squared (R^2 or the coefficient of determination) is a statistical measure in a regression model that determines the proportion of variance in the dependent variable that can be explained by the independent variables. In other words, r-squared shows how well the data fit the regression model (the goodness of fit).Below is the table that shows the goodness of fit of the study.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853[a]	.728	.717	.9195

In order to examine the influence of factors on customer retention, multiple linear regression analysis has been conducted. Customer retention used as the dependent variable while the five underlying factors were used as the independent variables. The regression model (see table 4.8) explained summary of findings R square that how much of the variance in the measure of customer retention explained by the determinant factors. Based on this, model coefficient of determination or R^2 obtained indicated that 72.8% of the variation in the measurement (customer retention) function can be explained by the independent variables of Customer service, Premium, switching barrier, customer relationship, competition and claim trend. Alternatively, R square is 0.728 means that explanatory variables have 72.8 % impact on dependent variable. The remaining 27.2 % influence on customer retention explained by other variables which of course is out of the scope of the study of this model. For instance customer's internal requirement and intervention of intermediary (insurance brokers) could be the variables that might affect the customer retention within those insurance companies.

The Table also shows that not all of the independent variables have a significant relationship with customer retention. For the independent variable claim trend (CT) is insignificant to affected the dependent variable (Customer retention), where its p-value is 0.153 greater than 0.05, given 95% confidence level.

Besides that, the tables show that while holding other variables and factors constant, the regression coefficient of 0.138 for customer service shows that when there is a change in customer service, it cause a marginal change of 0.138 in customer retention.

4.3.6 Model Equation

Based on the regression analysis the following model equation developed in order to show the mathematical relationship of the dependent and independent variables of the study.

Customer retention = 3.479 + 0.138 Customer service + 0.258 Premium + 0.144 Switching barrier + 0.154 Customer Relationship + 0.117 Competition

Figure 3: Model Equation

We can observe that the extent to which each independent variables (Customer Retention) influence the dependent variable Customer service, Premium, Switching barrier, Customer relationship, Competition, and Claim trend, in which all variable were found to be the influential factors for Customer retention. In other words, the five explanatory variables have significant influence on customer retention. According to Table 4.8, the regression analysis of unstandardized coefficients of Beta and Sig values for the five independent variables were revealed that, Customer service, Premium, Switching barrier, Customer relationship, Competition, and Claim trend; (0.138), (0.258), (0.144), (0.154), (0.117), & (-0.063) respectively. Their significance levels are 0.002, 0.008, 0.000, 0.002, 0.002, ,and 0.153 respectively, which is one item (Claim Trend) is greater than 0.05 significance level but the other five are significantly influence the dependent variable (customer retention).In other words, claim trend is insignificant to customer retention.

4.4 Normality Testing

One of the most important assumptions for parametric tests is that the data are from normally distributed populations. The researcher checked normality of the data using an objective test of skewness and kurtosis statistics. For an ideal normality, the values of skewness and kurtosis should be zero. Positive values of skewness indicate a pile-up of scores on the left of the distribution, whereas negative values of skewness indicate a pile-up of scores on the right of the distribution. Positive values of kurtosis indicate a pointy distribution whereas negative values of kurtosis indicate a flat distribution (Field, 2005). According to Mardia (1970) for testing of normality skewness statistics value less than 2 and kurtosis statistics value less than 6 is acceptable. Refer to the skewness and kurtosis statistics values shown below, all values fall below 2 and 6 ceiling. Thus the data is taken as a normally distributed one.

Table 4.7: Skewness and Kurtosis statistics of all variables

Variables	Skewness	Kurtosis
Customer Service	1.348	5.957
Premium	1.865	5.173
Switching Barrier	1.222	5.191
Customer Relationship	1.320	4.774
Competition	1.143	5.600
Customer Retention	1.995	5.645

(Source: own survey 2022) Dependent Variable: Customer Retention

CHAPTER 5

DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Introduction

This chapter is discussing five major areas which are summary of statistical analyses, major findings, implication, limitation and recommendations for future research. Moreover, this chapter also provide conclusion for the entire research project and enable policy makers and future researcher to understand more clear in the research project to allow them for future research on determinant of customer retention in life insurances.

The result indicated, overall all the variables tested are reliable. Customer retention appears to be significant and positively correlated with Premium, Switching Barrier, Customer Relationship and Claim trend. However the result shows Customer service and Competition has insignificant relationship with Customer retention.

5.2. Discussions of Major Findings

According to literature review, previous researcher founded Customer service, Premium, claim trend, customer relationship, switching barrier and competition is positively related with customer retention.

H_0: There is no positive relationship between Customer services and customer retention

The hypothesis reveals that Customer service has positive and considerable impact on Customer retention. H_0 is not supported since the multiple linear regression result showed a p value of 0.008, which is less than the significant level (0.05). As a result, the findings from the literature review are compatible with the findings of this study.

According to Getnet A. (2016) the findings of the study show that satisfaction, trust, price and switching barriers play a vital role in affecting customer retention.

The positive correlation between satisfaction and customer retention evidenced by previous researchers (Lai, Liu and Lin, 2011; Wilson, Soni and O’Keeffe, 1995). This implies that when customers are satisfied by the service of an insurance company, they intend to remain with their current insurance company. Thus, increased satisfaction results in increased customer retention.

According to Hanna D. (2014) the study found that customer satisfaction has a positive relation with retention. As per the study, customer satisfaction shows a significant impact on retention rate. According to the scale of Pearson's R-correlation, the type of correlation is positive and the magnitude is very strong.

H02: There is no positive relationship between premium and customer retention.

The hypothesis then proved that Premium has a direct impact on Customer retention positively; the p-value of the multiple linear regression is 0.000 lower than the alpha threshold (0.05). As a result, H2 is acceptable. This is in line with the findings of a recent study, which found that most of the insurance companies that have a high retention rate is because of their less premium that they offer to their customers.

As per previous study of Hanna D. (2014), the finding of the research has found out that premium has a negative correlation with retention, but it is not significant as compared to the previous two factors.

The positive correlation between price and customer retention confirmed the findings of earlier researchers (Murad, 2011; Varki and Colgate 2001). This implies that as customers perceive price of insurance policy is reasonable, they stay with their respective insurance companies. Thus, charging economical price brings about improved customer retention.

H03: There is no positive relationship between switching barrier and customer retention.

Third, the study's premise is that switching barrier increases probability of customer retention in insurance companies. As evidenced by the p-value of 0.002, which is lower than the alpha level (0.05). As a result, H3 is accepted.

According to Hanna D. (2014) finding is also proves there is no significant relation between retention and switching barrier. This is due to the prevalence of brokers and sales agents who can act on behalf of the insured, which might avoid the hassles of switching between insurers.

The positive correlation between switching barriers and customer retention evidenced by previous researchers (Danesh, Nasab and Ling, 2012). This implies that as switching barriers increase, customers remain with their insurance companies. In a nutshell, as the result shows price is the most important antecedent of customer retention followed by trust, satisfaction and switching barriers. Thus insurance companies need to focus on satisfaction, trust, price and switching barriers especially on price, trust and satisfaction.

H04: There is no positive relationship between customer relationship and customer retention.

Furthermore, the hypothesis of this study is that Customer Relationship influences Customer retention and the p-value is 0.002, which is less than the alpha threshold (0.05), indicating that H4 is supported.

The positive correlation between trust and customer retention supported the findings of previous researchers (Kassegne and Pagidimarri, 2013; Wilson, Soni and O'Keeffe, 1995).The implication is that as customers trust their insurance companies, customers stay with their respective insurance companies. Thus, increasing trust of customers has a positive contribution towards retention.

H05: There is no positive relationship between Competition and customer retention.

The hypothesis then proved that competition has a direct impact on Customer retention positively; the p-value of the multiple linear regressions result is 0.020 lower than the alpha threshold (0.005). As a result, H5 is acceptable.

Summary of the tested null hypothesis along with research result presented below for further reference.

Table7 Hypotheses Testing

Hypothesis	Coefficients	Sig.	Null Hypothesis	Alternative Hypothesis
H01: There is no positive relationship between Customer services and customer retention.	.138	.008	Rejected	Accepted
H02: There is no positive relationship between premium and customer retention.	.258	.000	Rejected	Accepted
H03: There is no positive relationship between Switching barrier and customer retention.	.144	.002	Rejected	Accepted
H04: There is no positive relationship between relationship and customer retention.	.154	.002	Rejected	Accepted
H05: There is no positive relationship between Competition and customer retention.	.117	.02	Rejected	Accepted

5.3 Summary of Major Findings

The general objective of the study is to identify factors that influence customer retention in life insurance sector in Addis Ababa, Ethiopia. So the study focuses on insurance customer's perception and attitude survey to examine the relationship between the independent variables of customer service, premium, switching barriers, customer relationship, competition, and customer retention.

Based on the sample data, the study generalized the findings to the population. The researcher carried out the study using a questionnaire. The respondents indicated their extent of agreement and disagreement by circling one of the five points on a Likert scaled items. The direction and degree of association between the independent variables and customer retention had been measured by Pearson correlation coefficient. The relative importance of the independent variables in predicting customer retention had been investigated by multiple regression analysis.

In respect of demographic profile of respondents, there is a male dominance. Besides, majority of respondents participated in the survey are found in the age group of between 30 and 45. More than half of the respondents are married. Regarding educational level, majority have university degree. With regard to duration of stay and occupation majority of the respondents have 1 up to 5 years stay and the lion share of respondents are engaged on running their own business.

The descriptive statistics shows that mean score values of the variables ranges from 2.8551 to 4.5304. According to (poonlar Btawee; 1987) as cited by Hailu D (2013) each of the Variables under consideration were perceived more than average by the sample respondents.

The Pearson correlation coefficient reveals that customer service (r=.008); premium (r=.000); switching barrier (r=.002); customer relationship (r=.000) and claim trend (r=.153) are all the independent variables have statistically significant and positive correlation with customer retention supporting all the five alternative hypotheses of the research. The strength of correlation is highest for premium followed by customer relationship, customer service, switching barriers and competition. The correlation is also significant at .05 level (2-tailed). However, claim trend remain positive and insignificant.

From the multiple regression result, estimate of regression weight shows that all the independent variables customer service (β=.212), premium (β=.218), switching barrier (β=.216), customer relationship (β=.197), switching barrier (β=.147) predict customer retention. Premium is the most dominant factor to influence customer retention in life insurance sector in Addis Ababa, Ethiopia in general and in Ethio Life and General Insurance Company in particular.

The adjusted R square value of .728 indicates that 72.8 percent variability in customer retention is accounted for by the explanatory variables integrated in the conceptual model.

5.4 Conclusion

This research paper is all about to identifying factors affecting the customer retention in life insurance business. The result of the research indicate that customer service, premium, switching barrier, customer relationship, completions and positively affects customer retention in life insurance. However, other variable such as political instability, inflation, client internal requirement, and intermediary barrier could be the possible factors that affects customer retention in which the researcher call for the need of future research to clearly addresses the relationship between claim trend and customer retention. In addition, there are also limitations in this study and hope future research to overcome the limitation which can base on suggestions or other ways.

4.4 Recommendation

Based on the major findings of the research, the researcher suggests the following points.

- The regression coefficient of .258 or 25.8 percent gives the estimated change in customer retention associated with a unit change in customer service. Thus, insurance companies should promote transparency on how they arrive on premium and charge their customer a fair and commensurate premium so as to enhance their customer retention rate.

- The regression coefficient of .154 or 15.4 percent indicate the estimated change in customer retention associated with a unit change in customer relationship. In respect of relationship, the management of insurance company should design a strategy to increase their customer's relationship. Thus, insurance companies should;
  - Offer Discounts
  - Recognize and Reward Customers for their partnership
  - Encourage for Referrals
  - Create a tailored System
  - Ask for feedback

- The regression coefficient of .144 or 14.4 percent stretches the estimated change in customer retention associated with a unit change in switching barrier. Thus, insurance companies should work to reduce barriers to the existing customer's in order to maximize their own respective customer retention rate.

- The regression coefficient of .138 or 13.8 percent gives the estimated change in customer retention associated with a unit change in customer service. Therefore, insurance companies should strengthen their customer services and standards by tracking their customer experiences in order to maximize customer retention rate.

- The regression coefficient of .117 or 11.7% gives the estimated change in customer retention associated with a unit change in competition. Insurance companies should focus on the competition and able to track what their contenders are doing their business in the insurance market.

4.5 Future Research Directions

- This study is limited to only five independent factors that contribute to the customer retention in the life insurance sector in Addis Ababa, Ethiopia. Based on this study result only 72.8% of the variance in customer retention is predicted by these factors. Future studies should consider other additional factors to have a better understanding about customer retention in the Ethiopian life insurance sector which will accounts for 27%.

- The place in which this research has been conducted in Addis Ababa. Future researches should attempt to include customers located outside Addis Ababa to have a complete picture about the subject matter in Ethiopian context.

- This research focused only on the perceptions of customers and did not measure the perception from personnel of the insurance companies. Future researches should consider both ways and identify differences among perception of customers and personnel of insurance companies.

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Post Graduate Program

Department of Marketing Management

Customer Retention Survey

Dear Respondents:

Dear Respondents, I am a student of St. Marry University, School of Graduate Studies undertaking Master of Marketing Management. As partial fulfillment of my study, I am conducting a research project Titled "Factors affecting customer retention in Ethio Life & General Insurance Company" as a case study. You are now kindly invited to take part in this research by filling the attached questionnaire honestly. I would like to assure the confidentiality of this study because it is solely used for academic purpose and all respondents remain anonymous to safeguard their privacy. Your responses make the paper interesting and its results be significantly important. I would like to thank you in advance for the time you are ing to devote to fill out this questionnaire.

Feel free to contact me if you have any question by the following address Tel: 0911-74-37-34 E-mail behailu2009@yahoo.com.

Thank you very much!

Part II: Factors Affecting Customer Retention Direction: Please answer each statement below by putting a circle around the number that best reflects your degree of agreement or disagreement with that statement. 1 = SD - Strongly Disagree, 2 = D - Disagree, 3 = N - Neutral, 4 = A - Agree, 5 = SA - Strongly Agree

Part I. General Information

Direction: Please answer the following questions by circling the letter.

1	Gender	a) Male	b) Female		
2	Age	a) below 30	b) between 30 & 45	c) between 45 & 60	d) above 60
3	Marital Status	a) Single	b) Married	c) Divorced	d) Widowed
4	Educational Level	a)High school	b) Diploma	c) BA/BSC Degree	d) Post-graduate degree
5	Duration of stay with the insurance company	a) between 1 & 5 years	b) between 5 & 10 years	c) between 10 & 15 years	d) between 15 & 20 years
6	Occupation	a) Employed	b)Running own business	c) Retired	d) other

Part II: Factors Affecting Customer Retention

Direction: Please answer each statement below by putting a circle around the number that best reflects your degree of agreement or disagreement with that statement.

1 = SD - Strongly Disagree, 2 = D - Disagree, 3 = N - Neutral, 4 = A - Agree, 5 = SA - Strongly Agree

S.N	Code	Items	SD	D	N	A	SA
		I. Customer Service					
1	CS1	The company has tailored its services to the customer.	1	2	3	4	5
2	CS2	The Company has branches and operating hours that are convenient to me.	1	2	3	4	5
3	CS3	The Company workers are well informed, ethical and supportive to the customers.	1	2	3	4	5
4	CS4	The Company has favorable terms and conditions to me.	1	2	3	4	5
5	CS5	The Company gives prompt customer services and attends to customers' needs/problems.	1	2	3	4	5

		III. Premiums					
11	PR1	The charges I pay as insurance premium is affordable and Reasonable as compared to other insurance companies.	1	2	3	4	5
12	PR2	The premium I pay in this insurance company are fair and reasonable as compared to the service I get.	1	2	3	4	5
13	PR3	I do not compare prices with others since I have a belief in the pricing mechanism of the Company	1	2	3	4	5
14	PR4	I believe that my insurer's price is worthy as compared to its convenience and access for me.	1	2	3	4	5
15	PR5	Overall, the prices you pay are affordable and reasonable.	1	2	3	4	5
		IV. Switching Barriers					
16	SB1	It would cost me a lot of **money** to switch from my current insurance company to another insurance company.	1	2	3	4	5
17	SB2	It would cost me a lot of **time** to switch from my current insurance company to another insurance company.	1	2	3	4	5
18	SB3	It would cost me a lot of **effort** to switch from my current insurance company to another insurance company.	1	2	3	4	5
19	SB4	In general switching to a new insurance company would be a hassle.	1	2	3	4	5
20	SB5	I might have changed my insurer if I could do so without any significant hassle.	1	2	3	4	5
		V. Customer relationship					
21	CL1	I feel strong bond of companion with the company.	1	2	3	4	5

22	CL2	I have developed a friendly relationship with the people working for the company.	1	2	3	4	5
23	CL3	I tell to favorably to my friends about the company.	1	2	3	4	5
24	CL4	I prefer to re-purchase another insurance policy from the company.	1	2	3	4	5
25	CL5	I lose a friendly and comfortable relationship if I shift to another insurance company.	1	2	3	4	5
		VI. Competition					
26	CO1	The company provides me an excellent service that am looking for.	1	2	3	4	5
27	CO2	The company offers me good product package where competitors couldn't offered me.	1	2	3	4	5
28	CO3	The company's current financial strength is better than others.	1	2	3	4	5
29	CO4	The company has a branch office convenient than other competitors.	1	2	3	4	5
30	CO5	The company's professionalism and advice is better than others in the market.	1	2	3	4	5
		VI. Customer Retention					
31	CR1	I intend to remain with my current insurance company when my contract expires.	1	2	3	4	5
32	CR2	If I had needed insurance coverage, the company would be my first choice.	1	2	3	4	5
33	CR3	I plan to continue my relationship with the company in the future.	1	2	3	4	5
34	CR4	I would recommend the company to friends and relatives as the best insurance company.	1	2	3	4	5
35	CR5	Overall, I see myself using this company in the future.	1	2	3	4	5

Thanks for your willingness!!!